

### Background

On December 31, 2008, Governor Arnold Schwarzenegger released the summary of his proposed budget for fiscal year 2009–10, including proposed changes to the current year (2008–09) budget. The complete budget was released on January 9, 2009. The budget plans assume current-year General Fund revenues of \$91 billion — down from September's \$102 billion estimate. Budget year revenues are projected at \$98 billion.

The 2009–10 budget will begin with a \$13.7 billion deficit carryover from 2008–09 if no actions are taken. The budget plan includes proposals to reduce spending and increase revenues that would end 2009–10 with a \$1 billion reserve.

### The Budget Challenge

The state budget has been in crisis mode for more than a year, with projected deficits growing to \$41.6 billion from an original estimate of \$14.5 billion. The current-year budget was the most overdue ever passed by the Legislature and was well out of balance soon after the Governor signed it into law. On November 6, 2008, again on December 1, and for a third time on December 19, the Governor declared fiscal emergency and called special sessions of the Legislature to deal with the budget shortfall.

As of this date, no new plans to balance the budget have been adopted. On January 7, the Governor vetoed a package of bills the Legislature put forth in late December that would have reduced the deficit by \$18 billion. The Governor said he will adjust his budget proposals to reflect any legislative Special Session actions.

### Governor's Budget Plan

The Governor proposes a mix of spending reductions, tax and fee increases (see next page), internal fund borrowing, securitizing the California State Lottery, and selling Reimbursement Warrants (RAWs) to close the budget gap. The budget also includes proposals to relax environmental and labor regulations to accelerate public works projects.

### State General Fund Revenues and Expenditures

	Actual 2007–08	Revised 2008–09	Proposed 2009–10
million \$			
<b>Revenue and transfers</b>	101,991.4	91,116.9	97,708.0
<b>Expenditures</b>			
Legislative, Judicial, Executive	3,786.3	3,751.1	3,739.7
State & Consumer Services	557.5	559.8	568.6
Business, Transportation & Housing	1,448.7	1,367.5	1,766.7
Resources, Environment	1,281.4	1,502.6	1,244.7
Health & Human Services	31,034.6	30,855.8	29,830.8
Corrections & Rehabilitation	9,677.9	9,685.0	8,843.2
K-14 (Prop 98 & non-98)	43,133.7	36,972.9	41,789.4
Higher Education (non-CCC)	6,937.1	6,866.7	6,799.1
Labor & Workforce Development	98.3	101.9	104.4
General Government	5,445.3	749.7	837.2
<b>Total Expenditures</b>	<b>103,400.8</b>	<b>92,413.0</b>	<b>95,523.8</b>

General Government expenditures includes \$10.8 billion of reimbursements from other sources.

## Higher Education

The budget proposes to reduce 2009–10 higher education General Fund spending \$68 million below revised 2008–09 levels. As it did last year, the budget funds the Governor's Higher Education Compact with CSU and UC, then applies unallocated reductions to these total amounts — \$217 million for CSU and \$210 million for UC. The budget replaces all higher education lottery revenues with State General Funds, as part of the lottery securitization proposal.

The budget includes permanent budget reductions of \$66.3 million for CSU, \$65.5 million for UC, and \$402,000 for Hastings College of Law. The budget assumes a 10% undergraduate student fee increase for CSU and a 9.3% increase for UC, netting a combined \$300 million in new monies for UC and CSU.

For the California Community Colleges, the budget defers expected current-year funding into the new budget year with a temporary \$230 million decrease to apportionments (enrollment funding). This action does not reduce current-year program funding levels. The proposed budget eliminates the 0.68% cost-of-living adjustment in both the current and budget years for a reduction of \$363 million. The Governor also proposes to suspend all categorical program mandates and allow college districts flexibility to use those funds for other purposes.

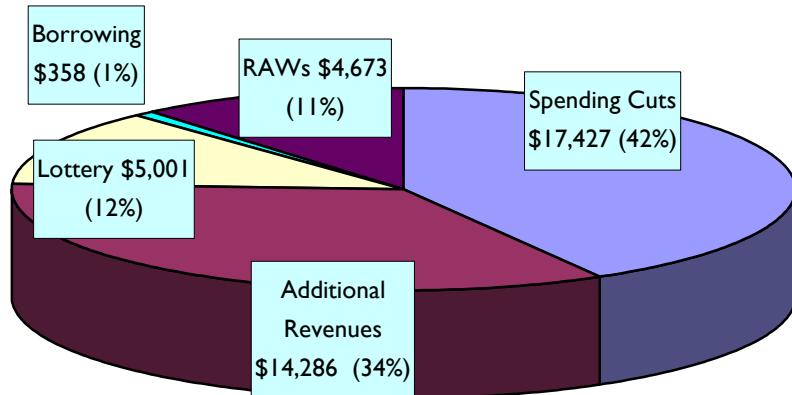
Major changes are proposed for the Cal Grant financial aid program, including freezing family income eligibility limits at current-year levels; reducing maximum grant award levels for students attending private institutions to \$8,322 (\$9,708 in 2008); eliminating the Cal Grant Competitive Pro-

## Revenue Proposals in the Governor's Budget

- Increase the Sales and Use Tax rate by 1.5¢ (from 5% to 6.5%) through December 2011.
- Broaden the Sales and Use Tax to include some services such as appliance repair, vehicle repair, veterinarian services, and admissions to amusement parks and sports events.
- Increase the per-gallon Alcoholic Beverage Excise Tax by the equivalent of 5¢ per drink.
- Adopt a 9.9% Oil Severance Tax on oil extracted within California.
- Reduce the state personal income tax dependent exemption credit (\$309 in 2008) to the level of the personal exemption credit (\$99 in 2008).
- Increase the driver's license fee by \$3 and vehicle registration fees by \$12 per vehicle.
- Shift some Tribal Gaming Revenues from transportation to the State General Fund.
- Transfer and borrow balances from selected special funds.

**Proposed Budget Solutions**

Dollars in millions



gram; and shifting \$193 million of Cal Grant costs to the Temporary Assistance for Needy Families (TANF) program as part of a larger proposed solution for TANF to meet federal “maintenance of effort” requirements. These changes, excluding the TANF fund switch, are estimated to generate \$88 million in General Fund savings.

The budget also proposes to consolidate the functions of CPEC and the California Student Aid Commission into a single agency and to decentralize the Cal Grant program by having campuses operate as one-stop shops for the packaging and delivery of financial aid.

## K-12 Education

The budget proposes to reduce current year Proposition 98 funding by \$6.6 billion to its newly revised minimum level of \$51.6 billion. The recession-driven decline in state revenues has lowered the guarantee level. The K-12 cuts proposed for the current and upcoming budget years include reducing basic apportionments, rescinding the COLA on these funds, deferring some expected payments into the budget year, suspending nearly all categorical program mandates (freeing up these funds for general usage), and shortening the 2009–10 school year by 5 days.

## Legislative Analyst's Review

In his initial review of the proposed budget the Legislative Analyst gives his general agreement with the budget's assessment of the problem and its balanced approach, while recommending some different proposals to close the budget gap. The Analyst also warns that the budget's reliance on borrowing (RAWs, Lottery proposal, internal funds) to generate more than \$10 billion is risky and potentially unsustainable in the current credit market. The Analyst also strongly recommends that the Legislature schedule a special election as soon as possible for any components that depend on voter approval, given the need for rapid action on the budget.

## Conclusion

The budget does not fund anticipated enrollment growth in UC and CSU, increasing the number of unfunded students enrolled in these systems. The budget proposes to reduce the quarter-million-person state workforce by 10% and to furlough workers two days each month. The budget proposes lower levels of public services in many program areas. The continuing budget crisis has generated many proposals but few solutions that are agreeable to policymakers. The most recent emergency legislative session is running concurrently with the regular budget-adoption processes. The state faces a cash flow shortage in the coming weeks and as challenging as the budget proposals put forth may be, the situation could become much worse in the months and years ahead if substantial action is not taken to address the \$42 billion budget shortfall.

### Additional information is available at these websites

*Department of Finance* — [www.dof.ca.gov/budget/historical/2009-10/documents/GB%20GF%20Proposals.pdf](http://www.dof.ca.gov/budget/historical/2009-10/documents/GB%20GF%20Proposals.pdf)

*Legislative Analyst's Office* — [www.lao.ca.gov/2009/budget\\_overview/09-10\\_budget\\_ov.pdf](http://www.lao.ca.gov/2009/budget_overview/09-10_budget_ov.pdf)

*California Budget Project* — [www.cbp.org/documents/01022009budgetrelease.pdf](http://www.cbp.org/documents/01022009budgetrelease.pdf)